

**ABAG PLAN CORPORATION**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT  
AUDITOR'S REPORT**

**JUNE 30, 2002**

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**ABAG PLAN CORPORATION**

**JUNE 30, 2002**

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Gilbert Associates, Inc.  
CPAs and Advisors

## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
ABAG PLAN Corporation  
Oakland, California**

We have audited the accompanying balance sheets of the Association of Bay Area Governments Pooled Liability Assurance Network Corporation (PLAN), as of June 30, 2002 and 2001, and the related statements of revenues, expenses, and changes in retained earnings and statements of cash flows for the years then ended. These financial statements are the responsibility of PLAN's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of PLAN as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The Reconciliation of Claims Liabilities by Type of Coverage and Claims Development Information on pages 12 through 14 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The supporting schedules on pages 16 through 18 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**/s/ X44;t a444"&+ .. czv-v**

**GILBERT ASSOCIATES, INC.**

**September 13, 2002**

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**Gilbert Associates, Inc.**  
CPAs and Advisors

September 13, 2002

**To the Finance Committee of  
Association of Bay Area Governments  
Pooled Liability Assurance Network Corporation**

We have audited the financial statements of Association of Bay Area Governments Pooled Liability Assurance Network Corporation (PLAN) for the year ended June 30, 2002, and have issued our report thereon dated September 13, 2002. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated July 18, 2000, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of PLAN. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of PLAN's compliance with certain provisions of laws and regulations. However the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by PLAN are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2001-02. We noted no transactions entered into by PLAN during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimate made by management, based on an actuarial calculation, was the estimated outstanding claims liabilities and unallocated loss adjustment expenses. Based on our audit, we concluded that these estimates were reasonable.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by PLAN that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. There were no significant audit adjustments arising from our audit.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general-purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authorities auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Finance Committee**  
**Association of Bay Area Governments**  
**Pooled Liability Assurance Network Corporation**  
**September 13, 2002**  
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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Finance and Personnel Committee and management of PLAN and is not intended to be and should not be used by anyone other than these specified parties.

*Gilbert Associates, Inc*

GILBERT ASSOCIATES, INC.

**ABAG PLAN CORPORATION**

**BALANCE SHEETS**

**JUNE 30, 2002 AND 2001**

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	<b>ASSETS</b>	
	<b>2002</b>	<b>2001</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 13,393,794	\$ 15,416,158
Investments, at Fair Value	24,042,978	17,175,295
Accounts Receivable	660,915	741,350
Equipment, Net	278,253	340,087
Total Assets	\$ 38,375,940	\$ 33,672,890
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>LIABILITIES</b>		
Reserves for Claims and Claim Adjustment Expenses	\$ 15,107,173	\$ 14,402,309
Reserves for Unallocated Loss Adjustment Expenses	755,359	720,115
Member Dividends Payable		525,505
Payable to Association of Bay Area Governments	137,414	98,171
Other Payables	14,556	3,410
Total Liabilities	16,014,502	15,749,510
<b>RETAINED EARNINGS</b>	<b>22,361,438</b>	<b>17,923,380</b>
Total Liabilities and Retained Earnings	\$ 38,375,940	\$ 33,672,890

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The accompanying notes are an integral part of these statements.

**ABAG PLAN CORPORATION**

**STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS**

**FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

	<b>2002</b>	<b>2001</b>
<b>OPERATING REVENUES</b>		
Premiums from members		
Administrative	\$ 1,500,000	\$ 1,400,000
General Liability Insurance	3,986,239	3,515,502
Property Insurance	516,423	438,679
Investment Income	2,287,013	3,423,806
Other Income	4,950	
Total Operating Revenues	8,294,625	8,777,987
<b>EXPENSES</b>		
Provision for Claims and Claim Adjustment Expenses	1,567,573	3,383,516
Provision for Unallocated Loss Adjustment Expenses	35,244	40,985
Property Insurance Coverage	360,991	393,947
Excess Insurance Coverage	250,000	
Depreciation	61,834	55,350
Management and Administrative	1,359,288	1,165,098
Member Dividends Declared	147,017	525,505
Contract Services		101,416
Other Expenses	74,620	57,869
Total Expenses	3,856,567	5,723,686
Net Income	4,438,058	3,054,301
Beginning Retained Earnings	17,923,380	14,869,079
Ending Retained Earnings	\$ 22,361,438	17,923,380

The accompanying notes are an integral part of these statements.

**ABAG PLAN CORPORATION**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

	<b>2002</b>	<b>2001</b>
Cash Flows from Operating Activities:		
Net Income	\$ 4,438,058	\$ 3,054,301
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities		
Depreciation	61,834	55,350
Net Increase in Fair Value of Investments	(549,598)	(1,389,831)
Changes in Assets and Liabilities:		
Decrease in:		
Accounts Receivable	80,435	182,134
Increase (Decrease) in:		
Reserves for Claims and Claim Adjustment Expenses	704,864	819,718
Reserves for Unallocated Loss Adjustment Expenses	35,244	40,985
Member Dividends Payable	(525,505)	(907,995)
Payable to Association of Bay Area Governments	39,243	(61,216)
Other Payables	11,148	(119,641)
Net Cash Provided by Operating Activities	4,295,723	1,673,805
Investing Activities:		
Purchases of Investments	(12,318,087)	(6,000,000)
Proceeds from Sale of Investments	6,000,000	15,500,000
Purchase of Equipment		(94,992)
Net Cash Provided by (Used in) Investing Activities	(6,318,087)	9,405,008
Net Increase (Decrease) in Cash and Cash Equivalents	(2,022,364)	11,078,813
Cash and Cash Equivalents - Beginning of Year	15,416,158	4,337,345
Cash and Cash Equivalents - End of Year	\$ 13,393,794	15,416,158

The accompanying notes are an integral part of these statements.

# ABAG PLAN CORPORATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### A. ORGANIZATION

The Association of Bay Area Governments Pooled Liability Assurance Network Corporation (PLAN) is a non-profit organization formed in June 1986 pursuant to California Nonprofit Public Benefit Corporation Law, California Corporation Code Section commencing with Section 5000. PLAN was organized to govern a program established by the Association of Bay Area Governments (the Association) to provide certain levels of liability insurance coverage, claims management, risk management services and legal defense to its participating members (San Francisco Bay Area cities). PLAN is governed by a Board of Directors which is comprised of officials appointed by each participating member. The activities of PLAN, which are administered by the Association (see Note 7), include setting and collecting premiums, administering and paying claims and related expenses and investing PLAN's assets. There were 30 members as of June 30, 2002 and June 30, 2001. PLAN is not a component unit of the Association.

As of July 1, 1992, PLAN's property insurance program became a self-insured pool, to provide certain levels of property insurance coverage, claims management, risk management services and legal defense to its participating members.

Prior to July 1992, members were allowed to participate in PLAN's property insurance program whereby PLAN functioned as the conduit between participants and an outside insurance carrier. Premiums were collected by PLAN and forwarded to the carrier, and claim reimbursements were sent by the carrier to the participants via PLAN.

Management and administrative activities of PLAN are accounted for in the Administration Fund, and risk-related activities are accounted for in the General Liability and Property Liability Funds.

#### B. PREMIUMS FROM MEMBERS

Each member is assessed an administrative risk premium in accordance with periodic actuarial studies. The administrative premium represents an allocation of total member premiums intended to cover PLAN's administrative costs. The risk premium is intended to cover PLAN's claims and claim settlement expenses. Premiums are recognized as revenues when earned based on the coverage period of the related insurance.

#### C. LOSSES AND CLAIMS

PLAN initially pays all claims out of a central pool of cash which is funded by risk premiums. PLAN subsequently submits invoices to the members for reimbursement of the deductible portion. Pursuant to an agreement between PLAN and member cities, PLAN may assess a supplemental premium charge if there are not sufficient funds for the claims reserves plan deductibles and adjustment expenses in a prior coverage period.

## ABAG PLAN CORPORATION

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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PLAN establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the processes used in computing claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

#### D. INVESTMENTS

Investments in debt securities and in external investment pools (such as the State of California Local Agency Investment Fund) are reported at fair value in the balance sheet. The net increase or decrease in the fair value of investments is included in investment income in the statement of revenue, expenses and retained earnings.

#### E. EQUIPMENT

Equipment is stated at cost. Depreciation is calculated using the straight-line method over estimated useful lives of three to seven years.

#### F. INCOME TAXES

PLAN is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(4) and related California statutes.

#### G. STATEMENT OF CASH FLOWS

For purposes of the statement of cash flows, PLAN considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### H. EXCESS INSURANCE

PLAN has property insurance through Specialty Surplus Insurance Company to cover losses above its retention limit of \$100,000. This policy covers PLAN members who participate in the property program up to a combined per occurrence limit of \$1,000,000,000. The policy is subject to various sublimits ranging from \$500,000 to \$100,000,000. For the 2001-02 fiscal year, PLAN obtained an excess liability insurance policy through Royal Indemnity Company. This policy covers PLAN for \$5 million in excess of PLAN's retention limit of \$5 million.

ABAG PLAN CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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2. CASH, CASH EQUIVALENTS AND INVESTMENTS

PLAN maintains separate cash and investment accounts for PLAN activities.

A. DEPOSITS

At June 30, 2002 and 2001, the differences between PLAN's cash book balances of \$346,322 and \$37,916, respectively, and the bank balances of \$488,574 and \$200,985, respectively, was due to outstanding checks. Bank balances of up to \$100,000 are fully covered by federal depositary insurance. The bank balance was also collateralized 110% as required by Section 53652 of the California Government Code with securities held by the pledging financial institutions in PLAN's name.

B. CASH EQUIVALENTS AND INVESTMENTS

The Executive Board adopted an investments policy which allows PLAN to invest in certificates of deposit, bankers' acceptances, commercial paper, United States government and agency securities and the State of California Local Agency Investment Fund (LAIF).

LAIF is a state-wide investment pool under the authority of the Office of the Treasurer of the State of California. Cash and cash equivalents invested in LAIF include \$13,047,472 at June 30, 2002 and \$15,378,242 at June 30, 2001. The carrying value of amounts invested approximates PLAN's interest in the fair value of the underlying investments of the pool.

Investments are comprised of United States government and agency debt securities. The fair value of these investments amounted to \$24,042,978 and \$17,175,295 at June 30, 2002 and 2001, respectively. Investments are held by PLAN's agent in the name of PLAN's agent. PLAN's agent tracks PLAN's ownership of the securities through its own internal tracking procedures.

Derivative Investments

The Authority did not directly enter into any derivative investments. The total amount invested by all public agencies in LAIF was \$47,719,552,487 and \$54,496,268,373 at June 30, 2002 and 2001, respectively. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes, totaling \$551,578,000 (1.15% of the total portfolio) and \$1,517,548,000 as of June 30, 2002 and 2001, respectively, and asset-backed securities totaling \$921,063,000 (1.93% of the total portfolio) and \$937,996,000 as of June 30, 2002 and 2001, respectively. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute.

**ABAG PLAN CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**3. ACCOUNTS RECEIVABLE**

At June 30, 2002 and 2001, accounts receivable was comprised of the following:

	2002		2001
Member Claim Deductibles	\$ 244,800	\$	278,272
Cash and Investment Interest	416,115		463,078
Total	\$ 660,915	\$	741,350

**4. EQUIPMENT**

Following is a summary of equipment and capitalized software as of June 30, 2002 and 2001:

	2002		2001
Capitalized Software	\$ 340,087	\$	394,005
Equipment	25,777		25,777
Less Accumulated Depreciation and Amortization	(87,611)		(79,695)
Total	\$ 278,253	\$	340,087

**ABAG PLAN CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**5. RESERVES FOR CLAIMS AND CLAIM ADJUSTMENT EXPENSES**

The following represents aggregate changes in the reserves for reported and incurred but not reported claims, including related claim adjustment costs during the years ended June 30, 2002 and 2001:

	2002	2001
Reserves for Claims and Claim Adjustment Expenses, Beginning of Year	\$ 15,122,424	\$ 14,261,721
Incurred Claims and Claim Adjustment Expenses Provision for Insured Events of the Current Year	4,356,371	4,238,578
Decrease in Provision for Insured Events of Prior Years	(2,759,944)	(702,381)
Total Provisions for Claims and Claim Adjustment Expenses	1,596,427	3,536,197
Payments		
Claim and Claim Adjustment Expenses Attributable to Insured Events of Current Year	63,773	62,970
Claim and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	792,546	2,612,524
Total Payments	856,319	2,675,494
Total Reserves for Claims and Claim Adjustment Expenses, End of Year	\$ 15,862,532	\$ 15,122,424

At June 30, 2002 \$16,492,348 (\$15,860,154 for 2001) in reserves for claims and claim adjustment expenses are presented at their net present value of \$15,107,173 (\$14,402,309 for 2001). These claims are discounted at 4.5% and 5%, for 2002 and 2001, respectively, based on expected settlement dates.

	2002	2001
Components of Unpaid Claims Liabilities:		
Reserves for Claims and Claim Adjustment Expenses	\$ 15,107,173	\$ 14,402,309
Reserves for Unallocated Loss Adjustment Expenses	755,359	720,115
Total Reserves for Claim and Claim Adjustment Expenses	\$ 15,862,532	\$ 15,122,424

**ABAG PLAN CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

PLAN utilizes the findings of an independent actuary in establishing its liability for claims and claims adjustment expenses, as described in Note 1. Management believes that the aggregate reserve for unpaid claims and claim adjustment expenses at year-end represent the best estimate, based upon the available data, of the amount necessary to cover the ultimate cost of the claims. However, due to the relatively small number of insureds, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in the current operations.

**6. INVESTMENT INCOME**

Investment income for 2002 and 2001 is comprised of the following:

	2002	2001
Interest Income	\$ 1,737,415	\$ 1,645,304
Net Increase in the Fair Value of Investments	549,598	1,389,831
Total Investment Income	\$ 2,287,013	\$ 3,035,135

The net increase in the fair value of investments takes into account all changes in fair value (including purchases and sales) that occurred during the year, and is determined as follows:

Fair Value of Investments - Beginning of Year	\$ 17,175,295	\$ 25,285,464
Add: Purchase of Investments	12,318,087	6,000,000
Less: Proceeds from Sale of Investments	(6,000,000)	(15,500,000)
Subtotal	23,493,382	15,785,464
Fair Value of Investments - End of Year	24,042,980	17,175,295
Net Increase in the Fair Value of Investments	549,598	\$ 1,389,831

Based on the difference between fair value and amortized cost, the unrealized gain on investments held at June 30, 2002 and 2001 was \$516,333 and \$704,024, respectively.

PLAN realized net gains from matured and called investments of approximately \$32,265 in 2002 and \$685,807 in 2001, respectively, based on the difference between the sales proceeds and the fair value of the investments reported at the preceding balance sheet date.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held for more than one fiscal year and matured or called in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

**ABAG PLAN CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

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**7. TRANSACTIONS WITH THE ASSOCIATION OF BAY AREA GOVERNMENTS**

PLAN has an agreement with the Association wherein the Association retains the authority to act as trustee, invest and disburse monies, provide accounting, administrative and clerical support, and conduct promotional activities on behalf of PLAN.

PLAN incurred costs of \$1,419,644 in 2002 and \$1,234,705 in 2001 under the agreement.

**8. MEMBER DIVIDENDS**

During the year ended June 30, 2001 PLAN declared dividends to members of \$525,505, payable on July 1, 2001, as a result of better-than-expected loss experience. Such dividends have been recorded in the accompanying financial statements when declared and are allocated to members on a pro rata basis based **on inception-to-date premiums and loss experience.**

## **SUPPLEMENTAL INFORMATION**

**ABAG PLAN CORPORATION**

**RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF COVERAGE**

**JUNE 30, 2002**

	Liability Pool		Property Pool	
	2002	2001	2002	2001
Reserves for Claims and Claim Adjustment Expenses, Beginning of Year	\$ 15,065,597	\$ 14,104,221	\$ 56,827	\$ 157,500
Incurring Claims and Claim Adjustment Expenses Provision for Insured Events of the Current Year	4,184,546	4,175,346	171,825	63,232
Decrease in Provision for Insured Events of Prior Years	(2,759,944)	(572,540)	0	(129,841)
Total Provisions for Claims and Claim Adjustment Expenses	1,424,602	3,602,806	171,825	(66,609)
Payments				
Claim and Claim Adjustment Expenses Attributable to Insured Events of Current Year	0	53,569	63,773	9,401
Claim and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	785,167	2,587,861	7,379	24,663
Total Payments	785,167	2,641,430	71,152	34,064
Total Reserves for Claims and Claim Adjustment Expenses, End of Year	\$ 15,705,032	\$ 15,065,597	\$ 157,500	\$ 56,827
Components of Unpaid Claims Liabilities:				
Reserve for Claims and Claims Adjustment Expense	\$ 14,957,173	\$ 14,348,188	\$ 150,000	\$ 54,121
Reserves for Unallocated Loss Adjustment Expenses	747,859	717,409	7,500	2,706
Total Reserves for Claim and Claim Adjustment Expenses	\$ 15,705,032	\$ 15,065,597	\$ 157,500	\$ 56,827

**ABAG PLAN CORPORATION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**GENERAL LIABILITY POOL**

**YEARS ENDED JUNE 30**

<i>In Thousands</i>	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
(1) Earned premiums	4,515	4,665	4,465	5,222	5,151	5,269	4,980	4,695	4,916	5,486
Excess insurance premiums										250
Net earned	4,515	4,665	4,465	5,222	5,151	5,269	4,980	4,695	4,916	5,236
(2) Investment income allocation:										
FY 01-02	142	140	94	236	221	124	30	121	196	202
FY 00-01	159	156	105	263	247	140	245	146	230	
FY 99-00	161	144	103	239	218	172	190	143		
FY 98-99	192	152	100	252	218	213	89			
FY 97-98	217	160	115	273	245	231				
FY 96-97	222	161	183	243	225					
FY 95-96	241	169	186	242						
FY 94-95	254	231	207							
FY 93-94	243	221								
FY 92-93	356									
(3) Net earned premiums and investment revenues	6,703	6,199	5,557	6,969	6,525	6,148	5,534	5,105	5,341	5,439
(4) Unallocated expenses	752	824	1,065	1,085	1,140	1,409	1,503	1,947	1,394	1,597
(5) Funds available for claims	5,951	5,375	4,492	5,884	5,385	4,739	4,031	3,158	3,947	3,842
(6) Paid (cumulative) as of:										
End of policy year	52	178	83	24	0	6	1,865	66	53	0
1 year later	90	368	434	42	145	230	2,574	735	234	
2 years later	294	1,409	532	71	524	1,074	3,280	928		
3 years later	447	1,545	1,997	277	568	2,262	3,659			
4 years later	611	1,684	2,114	449	601	2,299				
5 years later	687	1,678	2,013	457	601					
6 years later	708	1,684	2,123	458						
7 years later	835	1,678	2,123							
8 years later	839	1,678								
9 years later	839									
(7) Estimated reserves for claims and claims adjustment expenses:										
End of policy year	3,082	3,924	3,887	3,683	3,663	3,429	3,400	3,444	3,926	3,985
1 year later	3,108	3,204	3,192	3,391	3,495	3,106	2,537	3,022	3,573	
2 years later	2,636	1,796	2,515	2,962	2,671	2,319	2,042	2,632		
3 years later	1,590	1,678	878	1,989	1,925	2,005	1,752			
4 years later	773	1,462	678	1,166	1,197	1,259				
5 years later	350	1,164	612	865	563					
6 years later	212	985	340	374						
7 years later	85	619	164							
8 years later	58	282								
9 years later	104									
(8) Reestimated incurred claims and claims adjustment expenses:										
End of policy year	3,134	4,102	3,970	3,707	3,663	3,435	5,265	3,510	3,979	3,985
1 year later	3,198	3,572	3,626	3,433	3,640	3,336	5,111	3,756	3,807	
2 years later	2,930	3,205	3,047	3,033	3,195	3,393	5,322	3,560		
3 years later	2,037	3,223	2,875	2,266	2,493	4,268	5,411			
4 years later	1,384	3,146	2,792	1,615	1,798	3,558				
5 years later	1,037	2,842	2,625	1,323	1,164					
6 years later	920	2,669	2,463	832						
7 years later	920	2,297	2,287							
8 years later	897	1,960								
9 years later	943									
(9) Change in estimated net incurred claims from end of policy year	-2,191	-2,142	-1,683	-2,875	-2,499	123	146	50	-171	0
(10) Equity Distributions										
Paid 7/01	226	140	101	322	204	-78	-225	-217	-254	
Paid 7/00	390	193	124	135	74	21				
Paid 7/99	516	194	95	158	36					
Paid 7/98	337	81	84	45						
Paid 7/97	495	219	69							
Paid 7/96	215	44								
Paid 7/95	60									
(11) Total paid	2,239	871	473	660	314	-57	-225	-217	-254	0
(12) Funds balance after reestimated claims and dividends	2,792	1,662	1,227	2,959	1,875	1,461	-1,009	-135	223	-143

**ABAG PLAN CORPORATION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**PROPERTY LIABILITY POOL**  
**YEARS ENDED JUNE 30**

<i>In Thousands</i>	993	994	995	996	1997	1998	1999	2000	2001	2002
(1) Earned premiums	410	431	453	494	515	528	529	529	439	516
Excess Insurance Premium	183	195	228	272	287	282	248	286	380	347
Net Earned	227	236	225	222	228	246	281	243	59	169
(2) Investment income allocation:										
FY 01-02	9	9	10	8	11	11	10	10	9	9
FY 00-01	9	10	10	9	11	12	10	10	9	
FY 99-00	8	9	9	8	10	11	10	10		
FY 98-99	6	7	7	6	8	8	8			
FY 97-98	6	6	7	6	7	8				
FY 96-97	6	7	7	6	8					
FY 95-96	7	8	8	8						
FY 94-95	3	4	4							
FY 93-94	4	5								
FY 92-93	11									
(3) Net earned premiums and investment revenues	296	300	287	273	283	296	319	272	77	179
(4) Unallocated expenses	0	0	0	0	0	0	11	56	0	0
(5) Funds available for claims	296	300	287	273	283	296	308	216	77	179
(6) Paid (cumulative) as of:										
End of policy year	7	27	18	86	7	4	6	7	9	63
1 year later	50	32	23	123	36	9	54	20	21	
2 years later	50	33	23	124	36	9	65	20		
3 years later	50	30	23	124	36	10	65			
4 years later	50	30	23	124	36	7				
5 years later	50	30	23	124	36					
6 years later	50	30	23	124						
7 years later	50	30	23							
8 years later	50	30								
9 years later	50									
(7) Estimated reserves for claims and claims adjustment expenses:										
End of policy year	40	31	21	150	150	150	150	150	51	150
1 year later	0	0	0	0	0	0	0	1	0	
2 years later	0	0	0	0	0	0	2	0		
3 years later	0	0	0	0	0	0	0			
4 years later	0	0	0	0	0	0				
5 years later	0	0	0	0	0					
6 years later	0	0	0	0						
7 years later	0	0	0							
8 years later	0	0								
9 years later	0									
(8) Reestimated incurred claims and claims adjustment expenses:										
End of policy year	47	58	39	236	157	154	156	157	61	213
1 year later	50	32	23	123	36	9	54	21	21	
2 years later	50	33	23	124	36	9	67	20		
3 years later	50	30	23	124	36	10	65			
4 years later	50	30	23	124	36	7				
5 years later	50	30	23	124	36					
6 years later	50	30	23	124						
7 years later	50	30	23							
8 years later	50	30								
9 years later	50									
(9) Change in estimated net incurred claims from end of property year	3	-28	-16	-112	-121	-147	-91	-137	-40	0
(12) Funds available after estimated claims	246	270	264	149	248	286	241	195	16	-34

**ABAG PLAN CORPORATION**

**REQUIRED SUPPLEMENTARY INFORMATION  
CLAIMS DEVELOPMENT INFORMATION**

**JUNE 30, 2002**

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The preceding tables illustrate how PLAN's earned revenue (net of excess insurance) and investment income compare to related costs of loss and other expenses assumed by PLAN as of the end of each of the past ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premium revenue, premium revenue ceded to excess insurers and net earned premium revenue.
- (2) This line shows investment income allocation to policy year from investment income earned during each of the past ten fiscal years.
- (3) This line shows the total of net earned premiums and investment revenues.
- (4) This line shows each fiscal year's other operating costs of PLAN not allocable to individual claims.
- (5) This line shows the net funds available for claims, after payments for excess insurance and unallocated expenses.
- (6) This section of ten rows shows the cumulative net claims paid at the end of successive years for each policy year.
- (7) This section of ten rows shows the estimated outstanding reserves as of the end of the current year for each policy year. This annual reestimation results from new information received on reported claims, reevaluation of existing information - on reported claims, as well as estimates for new claims not previously reported.
- (8) This section of ten rows is the total of (6) and (7) and shows how each policy year's net incurred claims has changed as of the end of successive years.
- (9) This line compares the latest reestimated net incurred claims amount to the amount for each policy year originally established (first row of line 8) and shows the difference between the current and original amounts. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.
- (10) (General Liability Pool only) This line shows the allocation of equity distributions to policy years paid by the pool during each of the 10 most recent fiscal years.
- (11) (General Liability Pool only) This line shows the total of line 10 by policy year.
- (12) This line shows the funds available after reestimated claims and dividends.

## **ADDITIONAL INFORMATION**

**ASSOCIATION OF BAY AREA GOVERNMENTS  
PLAN CORPORATION**

**SUPPORTING BALANCE SHEET**

**JUNE 30, 2002**

<b>ASSETS</b>					
	<b>General Liability Fund</b>	<b>Property Liability Fund</b>	<b>Admini- stration Fund</b>	<b>Total</b>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 10,864,321	\$ 2,084,689	\$ 444,784	\$	13,393,794
Investments, at Fair Value	24,042,978				24,042,978
Accounts Receivable	660,915				660,915
Equipment, Net	278,253				278,253
<b>Total Assets</b>	<b>35,846,467</b>	<b>\$ 2,084,689</b>	<b>\$ 444,784</b>	<b>\$</b>	<b>38,375,940</b>
<b>LIABILITIES AND RETAINED EARNINGS</b>					
<b>LIABILITIES</b>					
Reserves for Claims and Claim Adjustment Expenses	\$ 14,957,173	\$ 150,000		\$	15,107,173
Reserves for Unallocated Loss Adjustment Expenses	747,859	7,500			755,359
Payable to Association of Bay Area Governments	4,349	1,463	\$ 131,602		137,414
Other Payables	7,318		7,238		14,556
<b>Total Liabilities</b>	<b>15,716,699</b>	<b>158,963</b>	<b>138,840</b>		<b>16,014,502</b>
<b>RETAINED EARNINGS</b>					
	20,129,768	1,925,726	305,944		22,361,438
<b>Total Liabilities and Fund Equity</b>	<b>\$ 35,846,467</b>	<b>\$ 2,084,689</b>	<b>\$ 444,784</b>	<b>\$</b>	<b>38,375,939</b>

**ASSOCIATION OF BAY AREA GOVERNMENTS  
PLAN CORPORATION**

**SUPPORTING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS**

**FOR THE YEAR ENDED JUNE 30, 2002**

	<b>General Liability Fund</b>	<b>Property Liability Fund</b>	<b>Admini- stration Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Premiums from members				
Administrative			\$ 1,500,000	\$ 1,500,000
General Liability Insurance	\$ 3,986,239			3,986,239
Property Insurance		\$ 516,423		516,423
Investment Income	2,162,013	95,004	29,996	2,287,013
Other	4,950			4,950
Total Operating Revenues	<u>6,153,202</u>	<u>611,427</u>	<u>1,529,996</u>	<u>8,294,625</u>
<b>EXPENSES</b>				
Provision for Claims and Claim Adjustment Expenses	1,399,942	167,631		1,567,573
Provision for Unallocated Loss Adjustment Expenses	30,450	4,794		35,244
Property Insurance Coverage	13,979	347,012		360,991
Excess Insurance Coverage	250,000			250,000
Depreciation	61,834			61,834
Management and Administrative	4,911		1,354,377	1,359,288
Contract Services			147,017	147,017
Other Expenses	14,640	59,980		74,620
Total Operating Expenses	<u>1,775,756</u>	<u>579,417</u>	<u>1,501,394</u>	<u>3,856,567</u>
Net Income	4,377,446	32,010	28,602	4,438,058
Beginning Retained Earnings	<u>15,752,322</u>	<u>1,893,716</u>	<u>277,342</u>	<u>17,923,380</u>
Ending Retained Earnings	\$ 20,129,768	\$ 1,925,726	\$ 305,944	<u>\$ 22,361,438</u>

**ASSOCIATION OF BAY AREA GOVERNMENTS  
PLAN CORPORATION**

**SUPPORTING STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2002**

	<b>General Liability Fund</b>	<b>Property Liability Fund</b>	<b>Admini- stration Fund</b>	<b>Total</b>
Cash Flows from Operating Activities:				
Net Income	\$ 4,377,446	\$ 32,010	\$ 28,602	\$ 4,438,058
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities				
Depreciation	61,834			61,834
Net Increase in fair value of investments	(549,598)			(549,598)
Changes in Assets and Liabilities				
Decrease in:				
Accounts Receivable	65,243	15,192		80,435
Increase (Decrease) in:				
Reserves for Claims and Claim Adjustment Expenses	608,985	95,879		704,864
Reserves for Unallocated Loss Adjustment Expenses	30,450	4,794		35,244
Member Dividends Payable	(525,505)			(525,505)
Payable to Association of Bay Area Governments	(731)	1,463	38,511	39,243
Other Payables	4,573	(663)	7,238	11,148
Net Cash Provided by Operating Activities	4,072,697	148,675	74,351	4,295,723
Investing Activities:				
Purchases of Investments	(12,318,087)			(12,318,087)
Proceeds from Sale of Investments	6,000,000			6,000,000
Net Cash Used in Investing Activities	(6,318,087)	0	0	(6,318,087)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,245,390)	148,675	74,351	(2,022,364)
Cash and Cash Equivalents - Beginning of Year	13,109,711	1,936,014	370,433	15,416,158
Cash and Cash Equivalents - End of Year	\$ 10,864,321	2,084,689	\$ 444,784	\$ 13,393,794